

**REPORT OF THE COMMISSION STAFF**  
**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2004-178-E**  
**SOUTH CAROLINA ELECTRIC AND GAS COMPANY**

**REPORT OF THE AUDIT DEPARTMENT**

**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2004-178-E**

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**REPORT OF THE AUDIT DEPARTMENT**  
**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**  
**APPLICATION FOR RATE INCREASE**  
**SOUTH CAROLINA ELECTRIC AND GAS COMPANY**  
**DOCKET NO. 2004-178-E**  
**SYNOPSIS**

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Amount Requested - Net Increase -----	\$81,192,000
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<u>Rate of Return on Rate Base</u>	
Total Electric – Per Filing -----	8.15%
Total Electric – After Accounting and Pro Forma Adjustments-----	7.60%
Retail Electric – Per Filing-----	8.34%
Retail Electric – After Accounting and Pro Forma Adjustments ----	7.80%
Retail Electric – After Proposed Increase -----	9.39%

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<u>Return on Common Equity</u>	
Retail Electric – After Accounting and Pro Forma Adjustments ----	9.04%
Retail Electric – After Proposed Increase -----	12.19%

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**ANALYSIS**

The Audit Department Staff has conducted a review of the application for rate increase of South Carolina Electric and Gas Company (hereinafter referred to as “the Company”). The application covered operating results for the test year ended March 31, 2004.

The Company is an electric utility operating in 24 counties in the central and southern areas of South Carolina where it is engaged in the generation, transmission, distribution and sale of electricity to the public.

The following is a summary of the dockets relative to the Company’s most recent rate adjustments:

Date of Order	Effective Date	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
6-07-1993	6-07-1993	92-619-E	\$72,200,000	\$60,504,000	11.50%-12.00%
1-09-1996	1-09-1996	95-1000-E	\$76,727,000	\$67,465,000	12.00%
12/11/1998	12/11/1998	98-623-E	Rate Reduction	(\$22,699,000)	12.00%
1/31/2003	02/01/2003	2002-223-E	\$104,714,000	\$70,704,000	12.45%

In the Company’s present application before this Commission, a rate increase is being requested that will result in additional net revenues of \$81,192,000. The increase consists of \$92,114,000 for the proposed increase and an adjustment to reduce the proposed increase by \$10,922,000 for fixed capacity charges that the Company will incur for gas service to the Jasper facility.

The Staff computed a rate of return on rate base, after accounting and pro forma adjustments, of 7.80% on retail operations. Such rate increased to 9.39% after the effect of the proposed increase. Rate of return on common equity was computed by the Staff to be 9.04% after the effects of accounting and pro forma adjustments. Such rate increased to 12.19% after the revenues were adjusted for the proposed increase.

The Staff's exhibits relative to the Company's application are as follows:

**EXHIBIT A: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN**

Detailed in this Staff exhibit is the Company's Operating Experience, Rate Base and Rates of Return for the test year ended March 31, 2004 for both total Company and South Carolina retail operations. The exhibit is designed to reflect the Company's per book information and applicable accounting and pro forma adjustments that are necessary to correct or normalize the Company's test year operations.

Utilizing a rate base of \$4,014,886,000 and net operating income for return of \$327,221,000, the Staff computed a rate of return on rate base of 8.15% on total electric operations. Accounting and pro forma adjustments decreased income and decreased rate base resulting in a total income for return of \$287,787,000 and a rate base of \$3,788,632,000. The rate of return on rate base computed by the Staff after these adjustments was 7.60%.

Utilizing a rate base of \$3,831,455,000 and net operating income for return of \$319,628,000, the Staff computed a rate of return on rate base of 8.34% on retail electric operations. Accounting and pro forma adjustments decreased income and decreased rate base resulting in as adjusted net operating income for return of \$282,344,000 and a rate

base of \$3,618,246,000. The rate of return on rate base computed by the Staff after these adjustments was 7.80%.

After the Staff adjusted operating income for the full effect of the net proposed increase of \$81,192,000, net operating income for return increased to \$339,710,000, while the rate base remained \$3,618, 246,000. The rate of return on rate base as computed by the Staff after the effect of the proposed increase was 9.39%.

**EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA  
ADJUSTMENTS**

This exhibit details the Company's and Staff's accounting and pro forma adjustments for both total company and retail operations.

**EXHIBIT A-2: CUSTOMER GROWTH COMPUTATION**

The Staff's computation of the Company's customer growth is shown in this exhibit. The Staff computed a growth factor of 1.34% which includes updated customer counts as of May 31, 2004.

**EXHIBIT A-3: COMPUTATION OF TOTAL WORKING CAPITAL**

This exhibit presents Staff's computation of working capital for both total electric and retail operations using a forty-five day allowance. The Staff computed working capital allowances of (\$9,107,000) and (\$11,636,000), respectively, on an as adjusted basis.

**EXHIBIT A-4: SCHEDULE OF DEFERRED DEBITS AND CREDITS**

This exhibit shows the per book deferred debits and credits as well as Staff's adjustments for both total electric and retail operations. Net deferred debits and credits

amounted to \$94,548,000 for total electric operations and \$91,616,000 for retail operations, on an as adjusted basis. These amounts are subtracted from rate base.

#### **EXHIBIT A-5: RETURN ON COMMON EQUITY**

The Company's return on common equity is computed for retail electric operations both before and after the requested increase. The rate base, as shown on Exhibit A for retail operations, is allocated among the various classes of debt and equity, excluding short-term debt, according to the respective ratios as computed using the company's capital structure as of August 31, 2004. The amount of retail as adjusted net income for return necessary to cover embedded cost rates on long-term debt of 6.56% was computed to be \$111,463,000. The amount of as adjusted retail income for return necessary to cover embedded cost rates on preferred stock of 6.40% was computed to be \$6,322,000. The remainder of total income for return is income to common equity. Such remainder produces a return of 9.04% to common equity before the requested increase. After the requested increase of \$92,114,000, income available to common equity increases to \$221,925,000 and the return on common equity increases to 12.19%.

#### **EXHIBIT A-6: RECONCILIATION OF NET INCOME FOR RETURN**

This exhibit details the differences between the Company's filing and the Staff's presentation of financial data leading to net operating income for return.

#### **EXHIBIT A-7: RECONCILIATION OF RATE BASE**

This exhibit details the differences between the Company's filing and the Staff's presentation of financial data leading to the rate base contained on Exhibit A.



#### **EXHIBIT A-8: SUMMARY OF REAL ESTATE TRANSACTIONS**

This Staff exhibit summarizes the Company's real estate transactions for the year ended December 31, 2003.

#### **EXHIBIT A-9: CONSOLIDATED INCOME STATEMENT**

This exhibit presents the Company's condensed consolidated income statement for the test year ended March 31, 2004.

#### **EXHIBIT A-10: CONSOLIDATED BALANCE SHEET**

Presented in this exhibit is the Company's condensed consolidated balance sheet as of the end of the test year ended March 31, 2004.